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IN THE
Supreme Court of the United States
OCTOBER TERM, 1997

EASTMAN KODAK COMPANY,
Petitioner,
v.
IMAGE TECHNICAL SERVICES, INC., *et al.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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BRIEF OF INTELLECTUAL PROPERTY OWNERS AS *AMICUS CURIAE* IN SUPPORT OF THE PETITION

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QUESTIONS PRESENTED

In light of the unrestricted statutory grant of power to a patent or copyright owner to exclude others from using its protected works, can an owner's unilateral refusal to allow a competitor to use its protected works constitute unlawful exclusionary conduct under Section 2 of the Sherman Act?

In light of the exclusionary intent inherent in any exercise of the right to prohibit others from using a copyrighted work or patented invention, can exclusionary motives limit the owner's right to exclude and potentially give rise to Sherman Act Section 2 liability?

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BRIEF OF INTELLECTUAL PROPERTY OWNERS AS *AMICUS CURIAE* IN SUPPORT OF THE PETITION

With the parties' consent,[1] Intellectual Property Owners submits this brief to urge this Court to address the important intellectual property issues presented by the Petition's first question. As set forth below, the judgment and opinion of the court below squarely presents fundamental questions about the basic right of intellectual property owners "to exclude others from . . . using . . . or selling" (35 U.S.C. § 154) protected products, processes, and works,

[1] Letters reflecting the consent of all parties have been filed with the Court pursuant to Rule 37. Pursuant to Rule 37.6, *amicus* represents that this brief was not authored in whole or in part by counsel for any party. Petitioner Eastman Kodak Company is a member of the Board of Directors of Intellectual Property Owners but did not vote on whether to file this brief and made no monetary contribution to the preparation or submission of this brief. All members of the Board of Directors are listed in the Appendix. No other person or entity made a contribution to the preparation of the brief except Intellectual Property Owners, its members and counsel.

and whether the antitrust laws override that right to exclude, requiring an owner, in some circumstances, to provide competitors with access to its intellectual property. Those questions should be answered by the Court in this case.

INTEREST OF *AMICUS CURIAE*

Amicus Intellectual Property Owners is a national organization founded in 1972 to represent the owners of intellectual property in the United States. Its members include nearly 100 large and mid-size companies and more than 300 small businesses, universities, inventors, authors, executives and attorneys who own or are interested in patents, trademarks, copyrights and other intellectual property rights. Intellectual Property Owners regularly represents the interests of its members before Congress, the Patent and Trademark Office, and the Copyright Office, and previously has filed *amicus curiae* briefs in this Court on significant issues of intellectual property law.

Intellectual Property Owners and its members have a strong interest in this Petition because the decision of the Ninth Circuit undermines what heretofore had been the settled right of an intellectual property owner to refuse to sell or license its intellectual property as it chooses, even—in fact, especially—to *prevent* competitors from using that property to compete against the owner. The core statutory right to exclude others from using a protected product, process, or work—*in whatever market, for whatever reason*—has historically provided much of the incentive for creativity and innovation in American technology. The Ninth Circuit's decision limits the historic prerogative of the owner to take full advantage of its exclusive right to use the protected product—a right that has not heretofore been limited to particular markets as defined in connection with the antitrust laws. The decision thus undercuts a foundational principle of our patent and copyright laws, jeopardizing established business practices based on the long-accepted rights of intellectual property owners.

The problem is exacerbated by the Ninth Circuit's "pretext" analysis. The intellectual property owner's exclusionary intent in exercising its rights has never been relevant, nor should it be: The very essence of the right conferred on an owner by the patent and copyright laws is exclusionary. An owner has the power to bar competitors from using the protected product, process, or work in order to shield itself from competition. The Ninth Circuit's decision thus strips intellectual property owners of a core right granted to them by their intellectual property franchise and, by subjecting the owner to antitrust liability for the exercise of those rights, has made the exercise of intellectual property rights a risky proposition.

STATEMENT OF THE CASE

The intellectual property issues in this case arise from plaintiffs' claim that Kodak monopolized the market for service of Kodak copiers and micrographics equipment by refusing to sell spare parts to competing service providers. Kodak has patents on at least sixty-five of the parts that it refuses to sell to its competitors. *Image Technical Serv., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), Pet. App. 37A. Moreover, all Kodak diagnostic and service software is copyrighted. *Id.* The essence of plaintiffs' claim was that it was improper and unlawful for Kodak to withhold *any* parts or software because independent service companies need access to *all* of those assets in order to compete with Kodak. *Id.*

The trial court's instructions eviscerated Kodak's defenses that rested on its right to refuse to license or sell patented or copyrighted products. The trial court instructed the jury that the fact that some Kodak parts are patented or copyrighted is *not* a defense to *any* of plaintiffs' claims:

> If you find that Kodak engaged in monopolization or attempted monopolization by misuse of its alleged parts monopoly . . . then the fact that some of the replacement parts are patented or copyrighted *does*

> *not provide Kodak with a defense against any of those antitrust claims.*

Id. (emphasis added). Consistent with this view, the trial court rejected Kodak's request to instruct the jury that "exercising lawful patents and copyrights" represents an ordinary—and lawful—means of competition that could not be considered unlawfully exclusionary. *Id.* at 37A-38A.[2]

The upshot of the trial court's instructions and the jury verdict was that Kodak's statutory right to refuse to license or sell its patented or copyrighted products, and to exclude any competitor from using those products, was stripped away. In effect, plaintiffs were found to have had a right to those products; Kodak's refusal to sell or license was converted into impermissible exclusionary conduct giving rise to antitrust liability. The instructions further deprived Kodak of its ability to defend itself on the ground that, even if it was wrong to refuse to sell *un*-patented parts to plaintiffs, Kodak had an unabridgeable right to withhold patented parts and copyrighted software from plaintiffs. In other words, plaintiffs, who argued forcefully that they needed *all* of Kodak's parts in order to compete, never had to confront the difficulty of establishing antitrust injury or damages if Kodak lawfully could withhold patented parts and copyrighted software.

The Ninth Circuit agreed that the trial court's instructions were erroneous but affirmed nonetheless, finding the instructions "harmless." *Id.* at 49A. The Ninth Circuit was able to find the instructions harmless only by first positing a novel *limitation* on the circumstances under which an owner of intellectual property might properly

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[2] Knowing these instructions would be given, Kodak was precluded in closing from arguing its intellectual property defense. On the other hand, plaintiffs' counsel was able to brush aside Kodak's efforts to defend its case based on its statutory right to refuse to license or sell patented or copyrighted products. Plaintiffs' counsel simply read the judge's instructions and declared, "so much for the whole argument of patents." Pet. at 5, citing ER-224.

exercise its right to exclude competitors from access to the protected property.

The panel began by noting "conflict," "tension," and "dissonance" between the exclusionary power conferred on patent and copyright owners, on the one hand, and the open competition policies of the antitrust laws, on the other. *Id.* at 40A, 45A. This "conflict," "tension," and "dissonance" has been palpable for nearly a century yet, as the Ninth Circuit acknowledged, it could "find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright." *Id.* at 43A. Rather than draw the obvious conclusion that the dissonance had long been "harmonized" by finding *no* antitrust liability in that circumstance, the Ninth Circuit set about to "harmonize" these two competing areas of law itself, balancing the underlying policies as if it were writing on an open slate.

Under the Ninth Circuit's approach, intellectual property rights are entitled to "some weight." *Id.* at 46A. Just how much weight "depends largely on market definition." *Id.* Thus the propriety of the monopolistic intellectual property owner's exercise of its right *not* to sell patented products or copyrighted works depends on the "market" in which the rights are exercised. For the Ninth Circuit, the key question was "whether the service market [for Kodak equipment] falls 'reasonably within the patent (or copyright) grant' for the purpose of determining the extent of the exclusive rights conveyed." *Id.* at 45A.

Under that analysis, Kodak could permissibly refuse to sell or license in order to maintain its lawful "monopoly" over the patented product itself. But the Ninth Circuit somehow concluded that it would be impermissible for Kodak to assert its exclusive right to use patented or copyrighted products to dominate another market, in this case, the "service" market.

As phrased by the Ninth Circuit, there may be a "legitimate business justification" for refusing to license or sell patented or copyrighted products. *Id.* at 50A. The simple desire to exclude others from access to its protected work is such a presumptively valid justification. *Id.* But because some reasons for exercising intellectual property rights are *not* legitimate, the presumptive justification is subject to "rebuttal" as being merely pretextual—an effort to mask motivation that is not "legitimately procompetitive." The Ninth Circuit found it illegitimate to refuse to sell the patented product in order to affect competition in the service market. *Id.* at 52A.

The linchpin of the Ninth Circuit's harmless error and pretext analysis was, therefore, its conclusion that some justifications for a unilateral and "un-tied" refusal to sell or license a patented or copyrighted product are illegitimate. A pretext analysis is relevant only if one posits that there may be impermissible motives that need to be masked by invoking the pretext.

Applying the new standard, the Ninth Circuit concluded that the jury "would have found" that Kodak had *not,* in fact, been motivated by a (permissible) desire to protect its monopoly over the patented and copyrighted parts themselves. Instead, the jury "would have found" that Kodak declined to sell those parts as part of a larger plan not to sell *any* parts, and thus to prevent competition in the service "market." That was a market to which the protection of the "patent or copyright grant" did *not,* in the Ninth Circuit's view, permissibly extend. Based on this finding of "pretext" (*Id.* at 51A-52A) the panel affirmed the verdict and injunction requiring Kodak to provide plaintiffs with access to the patented and copyrighted parts.

REASONS FOR GRANTING THE WRIT

I. THE NINTH CIRCUIT'S RULING UPSETS SETTLED EXPECTATIONS CONCERNING AN INTELLECTUAL PROPERTY OWNER'S EXCLUSIVE RIGHT TO USE PATENTED PRODUCTS OR PROCESSES AND COPYRIGHTED WORKS.

The Petition presents in stark terms the question whether it is permissible for a patent or copyright owner to refuse to sell or license a patented or copyrighted product in order to advance its competitive position in an antitrust market other than the market for the product itself. As shown below, the patent or copyright owner can do precisely what the Ninth Circuit believed the owner could not do. The owner may insist upon its right of exclusive use, whether or not the owner seeks thereby to obtain or actually obtains a dominant position in some market (as defined under antitrust analysis) by virtue of its exclusive right to the superior product. The patent and copyright laws allow the patent or copyright owner to use the patented product or copyrighted work, and to bar competitors from using a patented product or copyrighted work *in any market. See In re Independent Service Organizations Antitrust Litigation,* 1997 U.S. Dist. LEXIS 20996 (D. Kan. Dec. 22, 1997) ("*Xerox*").[3]

As the Ninth Circuit acknowledged, before this case, no reported decision had based an antitrust violation on the unilateral, "un-tied" refusal of an intellectual property owner to sell or license products or works protected by

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[3] The decision of the Ninth Circuit is in sharp conflict with the well-reasoned, recent decision of the district court in *Xerox*, with the First Circuit in *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1189 (1st Cir. 1994), and, as shown below, with many, older decisions from a host of Circuits and this Court that have clearly stated a contrary rule. We emphasize, however, that the Ninth Circuit's approach, premised largely on a misreading of a footnote in this Court's recent *Kodak* decision, has had immediate and pervasive effects on numerous business relationships because it fundamentally remodels what had heretofore been a settled area of law.

valid patents or copyrights. That is because this Court has recognized that the antitrust laws are "modified *pro-tanto*" by the patent and copyright laws. *See Simpson v. Union Oil Co.*, 377 U.S. 13, 24 (1964). Thus, antitrust claims must give way to lawful refusals to sell or license patented or copyrighted products. Such refusals to license or sell are always exclusionary but not unlawfully so because they are directly authorized by patent and copyright law.

The right of exclusive use granted by statute is not limited to any particular "market" as defined by the antitrust laws. The owner's statutory right to exclude others from using its product is *not* restricted to the market for the product itself. To the contrary, by definition, the patent or copyright "monopoly" allows the owner to exclude a competitor from using its discovery in any way.

In circumscribing that right to exclude, the Ninth Circuit confused the "monopoly" over use of the protected work conferred by patent and copyright statutes with specialized market definitions employed in connection with the antitrust laws. Misreading a footnote in this Court's opinion in *Eastman Kodak Co. v. Image Technical Serv., Inc.*, 504 U.S. 451 (1992), the Ninth Circuit reasoned that proper use of intellectual property "depends largely on market definition." The Ninth Circuit concluded that it would be wrong for the monopolistic owner to use the protected product *in other markets* to obtain a dominant position in those markets—which was what Kodak was accused of here.

This legal conclusion is fundamentally inconsistent with the laws protecting intellectual property. The right to exclude all others from making use of the protected product is the core right protected by the patent and copyright laws.[4] Thus, a patent owner is free to exploit and extend

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[4] As this Court stated in *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980), "the right to exclude others from profiting by the patented invention" is "the essence" of the patent grant. *See Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (right to exclude others from using invention is at

the advantages conferred by the superior qualities of its invention and its exclusive right to use its invention to each and every application in which it has value, to the fullest extent permitted by the coverage of the patent. If the owner decides to license to others, it may charge whatever price it wants, or it may refuse outright to share it—without fear of antitrust liability.

As the Ninth Circuit's analysis appears to acknowledge, the owner of a patent for an electronic component may exclude others from selling the component in order to protect its "monopoly" in the "component market." But the Ninth Circuit failed to recognize the critical point that the same owner may also find that the component allows him to build and manufacture superior radios—so superior that his radio-making competitors are quickly driven from the "radio market" and he comes to dominate the radio market as well. The owner's competitors in the radio market cannot demand that the owner of the component patent make the patented component available to them in order to allow them to better compete in the radio market. To the contrary, the owner's patent grants him the right to exclude anyone, including his radio competitors, from using the patented component.

"[t]he heart" of the patent grant); *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1127 (D.C. Cir. 1981) ("essential right" of the patent owner is "to exclude others from profiting from the patented invention"); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1204 (2d Cir. 1981) (" 'right to exclude others from making, using or selling the invention,' . . . by refusing unilaterally to license his patent for its seventeen-year term . . . is expressly permitted by the patent laws"); *W.L. Gore & Assocs., Inc. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) ("right to refuse to license is the essence of the patent holder's right"); *see also Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1547 (Fed. Cir.) (*en banc*), *cert. denied*, —— U.S. ——, 116 S. Ct. 184 (1995). The same is true of a copyright holder's refusal to permit others to use its copyrighted works. *See Edward B. Marks Corp. v. Colorado Magnetics, Inc.*, 497 F.2d 285 (10th Cir. 1974). *See also* 1 WILLIAM HOLMES, INTELLECTUAL PROPERTY AND ANTITRUST LAW § 11.02 at 11-12 (1996) (logic of patent cases applies "with equal force to a unilateral refusal to grant a copyright license").

This ability to use an invention in multiple applications is one of the primary incentives underlying our system of intellectual property rights. If there are circumstances under which an owner that has made substantial investments to develop a patented product must now "share" its invention with its competitors, then much of the financial incentive for making such investments is dissipated. Moreover, if the right to exclude others from use of intellectual property is subject to collateral attack under the antitrust laws, then the certainty that intellectual property owners have relied on for two centuries will be severely eroded. Such newly-created antitrust exposure cannot help but chill the incentive to innovate that is central to the intellectual property owner's "bargain" and is so critical to this country's economic security.

The Ninth Circuit's ruling upsets a settled understanding of the rights of an owner of intellectual property that comes into play in hundreds of business decisions every day: the understanding that the decision whether to license or sell a patented product or copyrighted work is for the owner of that product or work to decide, without fear of collateral attack or antitrust liability.

II. THE ASSERTION OF INTELLECTUAL PROPERTY RIGHTS IS INHERENTLY EXCLUSIONARY.

The Framers recognized the importance of inventions by providing for the "exclusive Right" of inventors to their "Discoveries." U.S. CONST. art. I, § 8, cl. 8. Congress implemented the Framers' intent by establishing the legal system for granting patents and copyrights: The most basic right that patent law grants to patentees is "the right to exclude others from making, using, offering for sale, or selling" patented inventions during the life of the patent. 35 U.S.C. § 154 (1994); *see also* 35 U.S.C. § 271(a) (1994).[5] Copyright law similarly grants the

[5] Effective January 1, 1996, Congress amended 25 U.S.C. § 271(a) expressly to include "offer[ing] to sell" and "import[ing] into the United States" to the list of activities deemed to be a patent infringement. Pub. L. 103-465, Title V, § 533(a), 108 Stat. 4988 (Dec. 8, 1994).

right, *inter alia*, to prevent others from reproducing copyrighted works, making derivative works, and distributing copies of copyrighted works. 17 U.S.C. §§ 106(1)-106(3) (1994).

The patent owner thus has a legal "right to refuse to sell . . . [its] patented products." *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 457 (1940). Likewise, a copyright owner "may refrain from vending or licensing and content himself with simply exercising the right to exclude others from using his property." *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932). *See also Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 686 (4th Cir. 1992). The right thereby afforded is a statutory right to exclude all others, including competitors—*especially competitors*—from using patented goods and copyrighted works.

Congress has unambiguously confirmed the patent owner's right to refuse to license or allow use of its products. The patent code, as amended in 1988, provides, in pertinent part:

> No patent owner otherwise entitled to relief for infringement . . . of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of . . . [the patent owner's] refus[al] to license or use any rights to the patent.

35 U.S.C. § 271(d) (1994). The Ninth Circuit itself acknowledged that this language clearly "indicate[s] congressional intent to protect the core patent right of exclusion." Pet. App. 39A.

Although the policies underlying intellectual property law and the policies underlying antitrust law push in different directions, it has long been understood that the patent laws "are *in pari materia* with the antitrust laws and modify them *pro tanto*." *Simpson*, 377 U.S. at 24. Given the understanding that a patent or copyright owner's right to exclude others from using the product includes the right not to sell or license its protected product, a refusal to sell or license is not subject to scrutiny

under the antitrust laws. As the Court of Appeals for the Second Circuit held in *SCM v. Xerox*, "where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws." 645 F.2d at 1206. *See also Miller Insituform, Inc. v. Insituform of North America, Inc.*, 830 F.2d 606, 609 (6th Cir. 1987) (owner "cannot be held liable under Section 2 . . . by refusing to license the patent to others"); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) (same).[6] Simply put, a unilateral, "un-tied" refusal to allow others to use one's lawfully acquired intellectual property cannot violate the antitrust laws because it is authorized and encouraged by the copyright and patent laws.

The restriction on the rights of patent and copyright owners created by the Ninth Circuit is anomalous: If a patent owner discovers that a competitor is using the owner's patented product or process—*i.e.*, the competitor is infringing—no one would question that the owner could put a halt to the infringement. No one would think that the owner's right to halt the infringement depends on the owner's "motive" for doing so. Nor would one believe for an instant that the infringer could assert as a defense that the infringement was permissible because it "needed" to infringe so that it could more effectively compete with the owner in some related market. Yet, if no such antitrust theory would provide a defense to infringement, how can the Ninth Circuit affirmatively compel a patent holder —under antitrust principles—to license or sell its intellectual property assets to help others compete against it?

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[6] In the *Guidelines for the Licensing of Intellectual Property*, the Justice Department and Federal Trade Commission unambiguously affirmed that even where "a patent or other form of intellectual property does confer market power," the existence of such power does not "impose on the intellectual property owner an obligation to license the use of that property to others." 4 Trade Reg. Rep. (CCH) ¶ 13,132, § 2.2 (April 6, 1995).

The ruling of the Ninth Circuit undermines foundational principles of our intellectual property laws. Under the Ninth Circuit's approach, if the owner uses its patented device as a component in some unpatented product, a competitor in the *product* market may demand access to the patented device, arguing that the refusal to grant access is extending the monopoly over the patented device to a new market. To be sure, the competitor may ultimately not succeed in persuading a court or a jury that the elements of an antitrust violation are met—though there is always antitrust liability *risk* to the owner who refuses access because a jury or court might conclude otherwise. The more innovative and important the invention, the greater the competitive advantage the device confers on the owner, the greater will be the competitor's "need," and thus the greater the owner's risk that a court or jury will find it improper to deny competitors access. The Ninth Circuit's approach thus turns the incentive to innovate on its head.

III. THE NINTH CIRCUIT WRONGLY ENGRAFTED ANTITRUST MARKET LIMITATIONS ON THE EXCLUSIVE RIGHTS CONFERRED BY THE INTELLECTUAL PROPERTY LAWS.

The Ninth Circuit's approach improperly engrafts antitrust market definitions onto the lawful "monopoly" over product use created by the *intellectual property* laws.

The Ninth Circuit's error was explained in the well-reasoned opinion of the district court in *Xerox*. The intellectual property laws provide a "monopoly" over all uses of "the invention"; that monopoly does not depend on the vagaries of *antitrust* "market" concepts. The statutory grant of authority to bar anyone from using the patented or copyrighted product applies simply and broadly to *any* use *of the product*, in *whatever* market the inventor may wish to prohibit others from using it. Under the statutes, this plenary right to refuse to license or sell is limited only by time, not by "market." Thus, a "patent holder can lawfully acquire more than one 'inherent' or

'economic' monopoly by exercising the exclusionary power of a single patent." 1997 U.S. Dist. LEXIS 20996 at *16.

Intellectual property rights are pursued and valued precisely because they convey the exclusive right to use the protected work in any and all applications. A patent or copyright owner must be able to keep the product to itself, and gain the dominant—even monopoly—position over as many markets, involving different products and services, as the fruits of his or her creativity and innovation, and the scope of the claims of the patent, allow.

The inventor of a revolutionary new material may well find that the material provides it with a decided edge—and perhaps a "dominant position"—in markets for various goods made with the material. Armed with its patent, the inventor may enter the markets for insulation, kitchen utensils, or boats by offering products made of this revolutionary material. The material's performance may be so extraordinary that, by force of consumer demand, the inventor is soon dominant in all of those markets, displacing competitors right and left. The inventor's search for multiple applications is encouraged as much as the initial invention itself. The inventor need not share his material with competitors to allow them to compete in any of those markets.

Particularly in today's economy, where the pace of technological innovation sometimes requires manufacturers to give away newly patented products to cultivate demand for their goods, the patent owner should not be arbitrarily confined to the first market he chooses to enter, barred from "extending" his patent to new markets, and thus deprived of economic reward for his invention. Instead, he should be encouraged to innovate in order to enter all markets in which his invention may have value, with the full expectation of economic gain, and without fear of antitrust liability.

IV. THE NINTH CIRCUIT'S RELIANCE ON A FOOTNOTE IN THIS COURT'S PRIOR KODAK OPINION WAS MISPLACED.

The Ninth Circuit gleaned support for its approach from a footnote in this Court's earlier opinion in this case. *See* 504 U.S. at 480 n.29. Nothing in that footnote suggests any particular focus on the precise scope of the rights afforded the owner of intellectual property. The Court simply observed that "power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'" *Id.*

The Court cited tying cases. Nonetheless, the Ninth Circuit cited this Court's footnote to map out a more general market definition-based antitrust limitation on a patent or copyright owner's right of exclusive use. The Ninth Circuit's leap reflects a serious analytical error.

The cases cited in footnote 29 demonstrate only that misuse of a patent or copyright monopoly may provide the basis for finding an antitrust violation in the form of "tying" the sale of patented parts to a customer's purchase of unpatented parts or services.[7] One aspect of "tying" may, of course, be improper expansion of intellectual property rights beyond their legal limit to areas in which the owner has no rights whatsoever. The "evil"

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[7] The cases holding that an intellectual property owner has violated the antitrust laws by tying have reaffirmed the owner's core right to exclude others from making, selling, or using goods embodying the intellectual property. For example, in condemning tying in *International Salt*, the Court reaffirmed the patentee's basic "right to restrain others from making, vending or using the patented" machine. *International Salt Co., Inc. v. United States*, 332 U.S. 392, 395 (1947). Similarly, while holding that a patentee may not condition a license on an agreement not to use or sell goods beyond the scope of the patent, the Court in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969), acknowledged the patentee's right "to prevent others from utilizing his discovery without his consent."

in the "tie," however, is not the refusal to sell the patented product, but the improper conditioning of the sale on the purchase of some other product. Tying the two products is the unlawful act. Breaking the tie leaves unabridged the intellectual property owner's right to refuse to sell.

In contrast, the theory at issue here focuses squarely on the lawful exercise of the patent or copyright owner's refusal to sell or license. It effectively converts the exercise of that statutory right into an unlawful act. The concept of "misuse" never has been thought to apply to the mere exercise of rights guaranteed by the intellectual property statutes. Thus, no case has heretofore premised antitrust liability on the refusal to sell or license a protected product. The imposition of liability on the basis of such a theory represents a direct assault on the core right of the owner to exclude all others from using the protected work—the right at the heart of the patent and copyright laws. *See P.* Areeda & H. Hovencamp, *Antitrust Law* at ¶ 708d at 190 (1996) ("And while courts have construed antitrust law to impose other constraints on patentee behavior—such as prohibiting the use of tying arrangements and similar practices—none of those instances involved overriding an express patent law grant.").

V. INTENT IS NOT RELEVANT TO THE PATENT AND COPYRIGHT OWNER'S EXERCISE OF ITS RIGHT TO EXCLUDE.

To find an intellectual property owner's motive for withholding access "pretextual," as the Ninth Circuit did, it is necessary to find that such motive is being asserted to hide some "illegitimate" motive. But there are no such illegitimate motives—at least not at issue in this case. Because the right to exclude may lawfully be asserted to prevent competitors from using the product to compete, even to the extent of allowing the owner to dominate additional markets by force of its exclusive rights to that superior product, then it is anomalous to hold that it is illegitimate or "pretextual"—and violative of the antitrust laws—to have that "intent."

Anticompetitive intent has never been thought to limit the exercise of intellectual property rights. As this Court explained with respect to copyright: To "condition a copyright upon a demonstrated lack of anticompetitive intent would upset the notion of copyright as a 'limited grant' of 'monopoly privileges.' " *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 64 (1993).

Similarly, a patent holder's refusal to share its patent does not depend on the "motive" behind the refusal. To the contrary: "As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908).

The Ninth Circuit's fundamental mistake in positing a market-based antitrust limitation on the owner's right to exclude is compounded by its reliance on intent. Rather than focus on objective economic conditions, the Ninth Circuit's approach allows the legitimacy of a refusal to share intellectual property to turn on a jury's assessment of the owner's reasons for exercising its rights.

The district court in *Xerox* recently described the difficulty trying to distinguish between permissible and impermissible motives in the exercise of exclusionary rights:

> The standard articulated by the Ninth Circuit in *Kodak* makes it very difficult for a jury, a judge, or even the patent holder, to distinguish between a permissible refusal to deal (based on a desire to profit from patent rights) and an impermissible refusal to deal (apparently based on a desire to obtain a competitive advantage by excluding competitors). A patent holder does not refuse to share its invention because the property is patented, rather, the refusal is based on a desire to obtain a competitive advan-

> tage. . . . The patent is merely the means by which its holder may obtain this competitive advantage.

Xerox, 1997 U.S. Dist. LEXIS 20996 at *33-*34.

The Ninth Circuit's reliance on "intent" is flatly inconsistent with this Court's long-standing efforts "to avoid constructions of § 2 which might chill competition, rather than foster it." *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 458 (1993). The area of predatory pricing is one example where the Court established objective standards to limit the reach of antitrust theories that rely too heavily on motive. *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 222-25 (1993).[8]

In fact, *Data General Corp. v. Grumman Sys., Support Corp.*, 36 F.3d 1147, 1189 (1st Cir. 1994), the recent decision of the First Circuit from which the Ninth Circuit purported to draw inspiration for its "rebuttable presumption" analysis (125 F.3d at 1218, Pet. App. 48A), rejected the Ninth Circuit's approach. While suggesting that there *might* be "rare cases" in which antitrust principles might limit a copyright—as opposed to a patent—owner's right to refuse to license a copyrighted work (36 F.3d at 1187 and n.64), the First Circuit rejected any "search for an overriding 'antisocial' motivation" as "unilluminating." *Id.* at 1189. Every case is likely to involve mixed motives. *Id.* It is difficult to imagine a manufacturer that sells service for its equipment being interested *only* in maximizing profits from the sale of patented parts and *uninterested* in "maximizing revenues from its service business." *Id.* at 1154.

Basing liability and a duty to share one's intellectual property with one's competitors on a jury's finding of "in-

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[8] An intent standard is economically irrational because it results in two owners, who engage in the same conduct, with the same economic effect, being treated differently under the antitrust laws. One owner, with "impermissible motive," will be forced to transfer intellectual property to competitors; the other, with "permissible motive," may retain it.

tent" injects maximum uncertainty into heretofore well-defined business relationships. But even more fundamentally, a company's refusal to sell patented or copyrighted products is not rendered pretextual by a finding that the company was seeking to dominate some market: It is not pretextual because, at least with respect to the refusal to license or sell patented or copyrighted goods, that is its right. The Ninth Circuit's inquiry into intent is misplaced because the patent and copyright laws simply do not distinguish between the uses of the intellectual property owner's exclusionary power that the Ninth Circuit would permit and those that the Ninth Circuit deemed illegitimate.

CONCLUSION

For the foregoing reasons, the Court should grant the Petition.

Respectfully submitted,

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